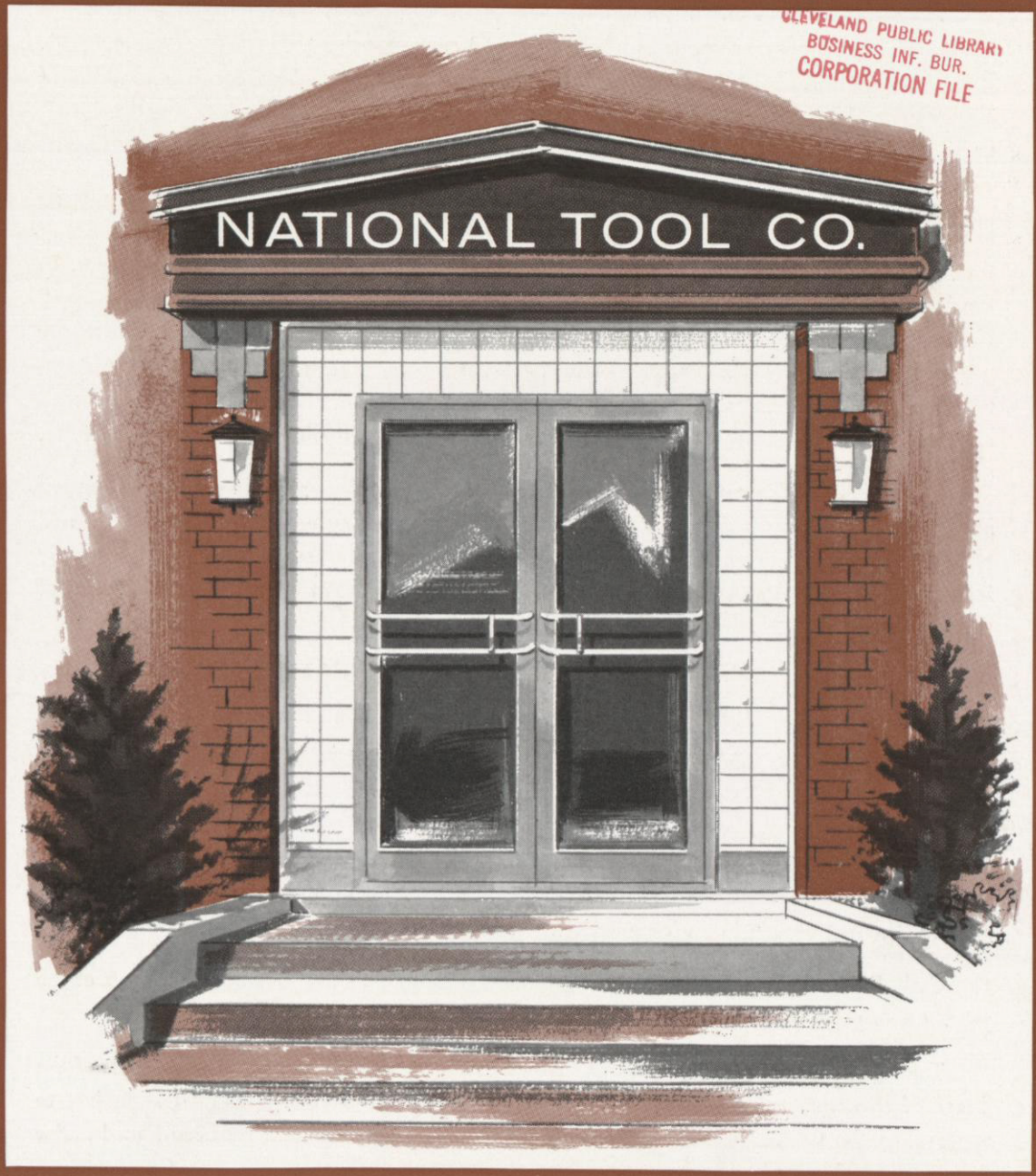
1957



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Fifty-third Annual Report

TO THE STOCKHOLDERS AND EMPLOYEES OF NATIONAL TOOL COMPANY

The year 1957 was one of an unusual succession of problems starting with a two-month strike. 1957 net income amounted to $58,765, or 23 cents per share. Net sales are $3,452,241. It is estimated that the strike cost 30 cents per share and without it 1957 earnings would have approximated 53 cents per share. In 1956, net sales were $4,302,103 and earnings were $147,237, or 58 cents per share.

The Company made a good recovery from the strike and by June 30 it had overcome its losses and was able to show a small profit for the first half of the year. The optimism felt at that time gave way to doubt as business began to turn down sharply in the third quarter. In the fourth quarter it was evident that a broad and serious business recession had developed. National Tool Company's sales volume follows very closely the index of overall metalworking production. Because of the diversity of industries it serves, other periods of readjustment in the recent past have not substantially affected the Company. On the other hand, a downturn of the economy of the breadth we are experiencing seriously impairs the Company's activity.

National Tool Company borrowed $600,000 in 1955 to finance a long term equipment improvement, and expansion program in our gear cutter departments. It required two and one-half years to complete this program. During this period, working capital was temporarily inflated as is shown by the following figures for working capital at the conclusion of each of the last four years:

1954	$ 834,146
1955	1,316,106
1956	1,180,727
1957	800,144

As a result of this investment, we have substantially increased capacity, improved efficiency, and lowered unit operating costs. The full benefits from these expenditures will be realized as soon as the next upturn in business occurs.

Cash dividends aggregating 30 cents per share were paid in the first three quarters of the year. A two percent stock dividend was distributed in the fourth quarter.

Twenty-five thousand shares of unissued capital stock have been reserved by action of the Board of Directors to cover a stock option plan for key employees. This plan is subject to approval by the stockholders at the Annual Meeting. No options have as yet been issued under the proposed plan, and none are outstanding.

The backlog of unfilled orders stands at $837,000 which is a most satisfactory figure in view of present seriously depressed conditions. Our customers have not cancelled orders even though they have extended deliveries well into the middle of 1958. Although new orders fell in January to a disappointing level, February showed some improvement and March is continu-

ing at the February rate. This may indicate that the recession for National Tool Company has hit its low point. Current operating expenses have been reduced drastically. We are continuing to make every effort to keep costs in line with sales volume. Our breakeven point has been reduced 30 percent since the middle of December. Through these efforts the Company is operating at a small profit in spite of the present low volume. Help to this end can be expected from price increases which were instituted on certain products in October, 1957, and in January, 1958. These price increases were required to offset higher direct labor and material costs.

Looking to the future, the Company has redesigned certain of its present equipment for the manufacture of fine pitch hobs. These tools are used to cut miniature gears primarily employed in missiles and instruments. While this new product is still in the experimental stage, it is believed that it will one day be an important part of the Company's business.

A business recession is never welcome. It does provide a greater challenge and drives home the need for diligence in all phases of operations. Our plant and facilities are in excellent condition. The Company has an alert and aggressive organization which has been strengthened in recent months. The wide range of tools which the Company manufactures enables it to serve every segment of industry. Prospects are good for the long term, and we are confident that both sales and earnings will continue to grow during the years to come. Special cutting tools are generally ordered much in advance of the time they are needed. Because of this, National Tool Company's business should improve considerably ahead of any upturn in the economy as a whole. If the general upturn does occur by mid-year, the Company's sales and earnings for the entire year 1958 could still be satisfactory.

Stockholders are urged to attend the Annual Meeting to be held on April 29, 1958. The notice of the meeting and proxy form will be mailed to each holder of common stock on or about April 7. Please sign and forward your proxy so that we may be assured of having a majority of the stock represented.

Arthur T. West

President

March 13, 1958

National Too

BALANC

December 31, 1

Assets

	DECEMBER 31 1957	1956
CURRENT ASSETS:		
Cash	$ 286,410	$ 309,044
U. S. Treasury securities, at cost plus accrued interest (less amount applied in reduction of Federal taxes on income)	—0—	50,821
Accounts receivable:		
Trade (less allowance of $18,309 for doubtful accounts)	344,785	389,633
Other	2,376	9,931
Inventories—at lower of cost or market:		
Finished and in-process products	439,091	394,714
Raw materials and supplies	324,703	404,121
Total current assets	$1,397,365	$1,558,264
MUTUAL INSURANCE DEPOSITS (NET) AND OTHER NONCURRENT RECEIVABLES	$ 26,257	$ 16,482
PROPERTY, PLANT, AND EQUIPMENT—At cost:		
Land	$ 39,104	$ 39,104
Buildings	414,107	389,548
Machinery and equipment	1,692,407	1,419,312
Total	$2,145,618	$1,847,964
Less accumulated depreciation and amortization	1,229,852	1,120,697
Property, plant, and equipment—net	$ 915,766	$ 727,267
DEFERRED CHARGES	$ 96,950	$ 63,696
TOTAL	$2,436,338	$2,365,709

NOTES TO FINAN

1. Twenty-five thousand shares of unissued capital stock of the Company have been reserved by action of the Board of Directors for a stock option plan to be presented for approval by stockholders at the annual meeting. No options have been issued under the proposed plan.

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E SHEET

957 and 1956

Liabilities

	DECEMBER 31 1957	1956
CURRENT LIABILITIES:		
Notes payable to banks (including $120,000 current portion of long-term notes)	$ 320,000	$ 120,000
Accounts payable:		
Trade	57,444	45,922
Other	27,693	27,547
Accruals:		
Federal taxes on income ($147,905 at December 31, 1956 offset by U. S. Treasury securities)	9,700	—0—
Other taxes	40,024	11,121
Salaries, wages, and commissions	118,778	168,286
Miscellaneous	23,582	4,661
Total current liabilities	$ 597,221	$ 377,537
NOTES PAYABLE TO BANKS,		
4%, maturing $30,000 quarterly (less current portion)	$ 240,000	$ 360,000
CAPITAL INVESTMENT AND EARNINGS RETAINED FOR USE IN THE BUSINESS:		
Common capital stock, authorized 600,000 shares of $1 par value each; issued and outstanding, 257,786 shares (Note 1)	$ 257,786	$ 252,732
Excess of paid-in capital over amount assigned to capital stock (increased during the year by $10,740 market value of stock dividend in excess of par value)	242,934	232,194
Earnings retained for use in the business (Note 2)	1,098,397	1,143,246
Total capital investment, etc.	$1,599,117	$1,628,172
TOTAL	$2,436,338	$2,365,709

CIAL STATEMENTS

2. Under the terms of the agreement relating to the notes payable to banks, dividends or other distributions to stockholders are restricted. At December 31, 1957, $50,144 of earnings retained for use in the business was available for distribution in 1958.

National Tool Company

STATEMENT OF INCOME AND EARNINGS RETAINED FOR USE IN THE BUSINESS

for the years ended December 31, 1957 and 1956

	YEAR ENDED DECEMBER 31 1957	1956
SALES AND OTHER INCOME:		
Net sales	$3,452,241	$4,302,103
Other income	1,005	4,592
Total	$3,453,246	$4,306,695
LESS:		
Cost of goods sold (including depreciation and amortization of $110,994 for 1957; $113,270 for 1956)	$2,740,914	$3,275,415
Selling, general, and administrative expenses	612,909	710,795
Interest expense	17,500	22,248
Total	$3,371,323	$4,008,458
INCOME BEFORE PROVISION FOR FEDERAL INCOME TAXES	$ 81,923	$ 298,237
PROVISION FOR FEDERAL INCOME TAXES	23,158	151,000
NET INCOME	$ 58,765	$ 147,237
EARNINGS RETAINED FOR USE IN THE BUSINESS, JANUARY 1	1,143,246	1,096,902
Total	$1,202,011	$1,244,139
LESS:		
Death benefits under employment contract (less $13,000 Federal income taxes)	$ 12,000	—0—
Dividends paid:		
Cash	75,820	$ 100,893
In common stock, 2%, at market value	15,794	—0—
Total	$ 103,614	$ 100,893
EARNINGS RETAINED FOR USE IN THE BUSINESS, DECEMBER 31 (Note 2)	$1,098,397	$1,143,246

The Notes on the Balance Sheet are an integral part of this statement.

HASKINS & SELLS
Certified Public Accountants

Williamson Building
Cleveland 14

Accountants' Certificate

NATIONAL TOOL COMPANY:

We have examined the balance sheet of National Tool Company as of December 31, 1957 and the related statement of income and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and earnings retained for use in the business present fairly the financial position of the Company at December 31, 1957 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

February 19, 1958.

Directors

JOHN A. BRADNER . . . . . *Cleveland, Ohio*
President, The Lees-Bradner Company

GEORGE O. DESAUTELS . . . . . *Indianapolis, Indiana*
President, George O. Desautels Company

CHARLES M. HANNUM . . . . . *Detroit, Michigan*
Partner, A. J. Brandt Company

J. VICTOR LOEWI . . . . . *Milwaukee, Wisconsin*
President, Loewi & Company, Incorporated

JOHN S. PEARSON . . . . . *New York City*

RICHARD F. STEVENS . . . . . *Cleveland, Ohio*
Partner, Baker, Hostetler & Patterson

ARTHUR T. WEST . . . . . *Cleveland, Ohio*
President, National Tool Company

Executive Committee

J. VICTOR LOEWI, *Chairman* — JOHN S. PEARSON, *Secretary*
JOHN A. BRADNER — ARTHUR T. WEST

Officers

ARTHUR T. WEST . . . . . *President*
RAY D. LINDSTROM . . . . . *Vice President and General Manager*
RICHARD F. STEVENS . . . . . *Secretary*
WILLIAM A. JONES . . . . . *Treasurer*
LEWIS M. SHAFER . . . . . *Assistant Secretary and Assistant Treasurer*

GENERAL COUNSEL — BAKER, HOSTETLER, & PATTERSON
REGISTRAR OF STOCK — THE NATIONAL CITY BANK OF CLEVELAND
TRANSFER AGENT OF STOCK — THE NATIONAL CITY BANK OF CLEVELAND
INDEPENDENT AUDITORS — HASKINS & SELLS

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Statistical Record—1947-1957

Year Ended Dec. 31	Net Sales	Net Profit for the Year	Net Profit Per Share	Total Taxes Per Share	Cash Dividend Per Share of Common Stock	Working Capital	Net Worth	Net Worth Per Share of Common Stock
1947	2,797,271	97,240	.42	.45	15¢	401,309	1,015,087	4.42
1948	2,735,617	110,154	.48	.46	15¢	456,444	1,090,802	4.75
1949	2,377,964	95,361	.41	.41	20¢	763,053	1,140,245	4.97
1950	3,137,290	168,860	.75	.81	30¢	774,165	1,221,904	5.32
1951	6,113,278	248,661	1.08	2.68	50¢	901,519	1,376,107	5.99
1952	5,446,721	151,231	.65	1.21	50¢	928,128	1,427,038	6.11
1953	5,412,018	173,787	.74	1.87	50¢	998,235	1,488,026	6.34
1954	4,160,789	120,087	.51	.83	50¢	834,146	1,490,816	6.35
1955	4,078,175	121,353	.48	.76	25¢+5% Stock	1,316,106	1,577,278	6.27
1956	4,302,103	147,237	.58	.92	40¢	1,180,727	1,628,172	6.44
1957	3,452,241	58,765	.23	.40	30¢+2% Stock	800,144	1,599,117	6.20

NATIONAL Tools CLEVELAND